8 August 2025

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Investment Idea

EG Industries Bhd

Bright Future Ahead

By Crystal Chin

BUY

Price: RM1.08

Target price: RM1.40

EG Industries Bhd (EG: 8907) is a global electronic manufacturing services (EMS) and vertical integration (VI+) provider. Following the signing of a third Letter of Intent (LOI) with Shanghai-based Cambridge Industries Group (CIG) to expand manufacturing operations at its Batu Kawan Smart Factory (PG2), we revise our core net profit forecast to RM80.3m for FY6/25F (+15%) and RM100.8m for FY6/26F (+19%). We reiterate our BUY call with a higher target price of RM1.40 (from RM1.28), based on a PE of 13x (a 20% discount to industry peers) over FY26F EPS. We assign a lower PE (previously 15x) to reflect the prevailing uncertainty surrounding tariff implementation and the still-weak sentiment in the industry.

We anticipate 4QFY6/25 earnings to come in higher by approximately 58% QoQ to RM20m, lifting full-year net profit at RM80m, underpinned by stronger contributions on advanced optical modules from the CIG partnership.

EG's collaboration with CIG began in 2018, initially providing box-build services. The partnership transformed in 2022 to include the production of 100G, 200G, and 400G optical modules, and has since extended to include 800G and 1.6T modules. This aligns with rising global demand for high-speed optical components used in 5G wireless networks and data centres. CIG's involvement continues to be a major revenue contributor, reflecting robust industry tailwinds.

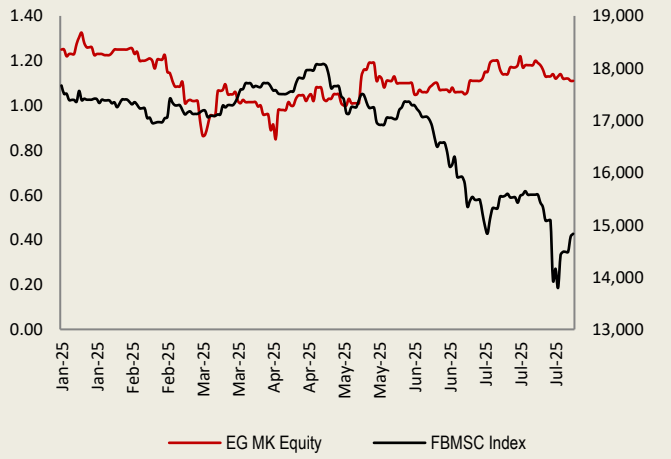
Production at EG's Smart Factory 4.0 in Batu Kawan (PG2) officially commenced in mid-June 2025. Although current utilisation remains below 50%, we expect steady improvement throughout FY26. Under the third Letter of Intent (LOI) signed with CIG on 6 July 2025, the facility aims to enhance production capacity including: (i) installation of high-speed SMT lines, (ii) higher standard 10k cleanroom, and (iii) increase automation in testing and packaging. These initiatives will support mass production of 800G modules and the ramp-up of 1.6T modules in the near future.

Additionally, the Master Purchase Agreement signed on 16 May 2025 with a U.S.-based customer for the supply of consumable network and AI-related products to the global market, is expected to contribute positively to FY26 earnings. Combined with the ramp-up in optical module productions, we anticipate strong earnings momentum in FY26, positioning EG on track to achieve its RM2bn revenue target.

Despite the recent implementation of a 19% U.S. tariff, we see no direct impact on EG. In fact, EG stands to benefit from global trade diversion as more orders from China CIG partner sourcing away from China to neutral markets like Malaysia.

From financial standpoints, we expect net gearing to improve from 0.77x (FY6/25F) to 0.59x as cash flow strengthens.

We continue to favour EG for its (i) strong strategic partnership with CIG, soon-to-be-listed company on the HKEX, (ii) accelerating demand for advanced optical modules, and (iii) capacity expansion at its Batu Kawan facility to support the Group's next phase of growth.



KLCI	1,549.11
YTD FBM KLCI change	-5.7%
YTD FBM SC Index change	-13.4%
YTD stock price change	-11.8%

Stock Information

Market Cap (RMm)	981.8
Issued Shares (m)	909.1
52-week range (H)	1.39
52-week range (L)	0.80
Shariah Compliant	Yes

Major Shareholders

Kang Kiang Pang	10.5%
QYH Capital SB	6.7%
KAF Investment Funds	5.7%

Summary Earnings Table

FY June (RM'm)	2024A	2025F	2026F	2027F
Revenue	1,144.2	1,484.1	1,917.0	2,288.9
EBIT	76.8	116.7	151.5	181.6
Pretax profit	49.7	81.5	106.1	127.4
PATMI	**49.0**	**80.3**	**100.8**	**121.0**
Core PATMI	**49.0**	**80.3**	**100.8**	**121.0**
Consensus	-	-	-	-
Core EPS (sen)	5.2	8.6	10.8	12.9
EPS growth (%)	26%	64%	25%	20%
DPS (sen)	-	-	-	-
PER (x)	20.2	12.3	9.8	8.3
BV/Share (RM)	0.64	0.75	0.88	0.88
ROE (%)	7.4%	8.7%	12.3%	13.2%
Div. Yield (%)	-	-	-	-

Sources: Company, Rakuten Trade Research

COMPANY	Definition
Buy	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
Trading Buy	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
Take profit	The stock return previously recommended has gained by >10%
Hold	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
Sell	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
Overweight	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Neutral	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Underweight	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

Scoring model:

The in-house scoring model is derived from Rakuten Trade Research valuation matrix based on earnings growth, earnings visibility, business model, valuation, balance sheet, technical analysis, and shareholder value creation. Each parameter is given a specific weighting.

All buy calls are based on the research team's judgement. Investing is risky and trading is at your own risk. We advise investors to:

- read and understand the contents of the disclosure document or any relevant agreement or contract before investing;
- understand the risks involved in relation to the product or service;
- compare and consider the fees, charges and costs involved; and
- make your own risk assessment and seek professional advice, where necessary.

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